COST *and* MANAGEMENT

Vol. XXVI DECEMBER No. 11

SELLING ACCOUNTING TO MANAGEMENT

By M. B. T. Davies 407

The Manager of Accounting for Deep Rock Oil Corporation at Tulsa, Oklahoma, Mr. Davis has been engaged in the accounting field since 1930. He received his university education at the University College, London, England. He is a Chartered Accountant, England and Wales and a Certified Public Accountant in the State of New York. A member of the American Institute of Accountants, he also holds memberships in the New York and Oklahoma State Societies of the Institute of Internal Auditors.

THE VALUE OF AN OPERATING POINT OF VIEW TO INDUSTRIAL ACCOUNTANTS

By R. R. Renner 417

Mr. Renner is currently engaged in professional work as an Industrial Management Consultant. A graduate of the University of Cincinnati College of Engineering, he lectured on Production Planning and Control at Northwestern University, Boston, in 1950. He has gained wide experience in the field of Industrial Accounting and for a time practised as a Public Accountant. He is a member of the National Association of Cost Accountants, American Accounting Association and the American Society of Mechanical Engineers. This article appears in Cost and Management through the courtesy of N.A.C.A.

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SOCIETY NOTES

A Christmas Message

FROM OUR PRESIDENT

With the arrival of Christmas, we find ourselves on the threshold of a new year and we offer our thanks for the blessings which have been ours in the year just past. It is in this Season, that we feel the resurgence of faith, and the unselfish desire to contribute a worthwhile service to our fellow men in the year ahead.

In this Christmas Season, we, in Canada, have much for which we may be thankful. Amid the turbulence of a somewhat confused and distraught world, we are fortunate to dwell in the peace and freedom of a youthful and truly democratic nation. Many of our native sons are, at present, participating in a hectic struggle to maintain the traditions and ideals which are our heritage. Soon, we trust, they will be able to return home and that "Peace on Earth" will be restored once more.

As members of the Society of Industrial and Cost Accountants, we offer our thanks for the outstanding progress achieved by the association in the past year. In a Society which is established on the firm foundation of service, it is most gratifying to see the contribution that our various programmes are making to business and industry. With the warm appreciation of a job well done and the knowledge that our accomplishment was attained by loyal and united effort, we may feel sure of continued success in the approaching year.

Your Officers and Directors join with me in wishing you and yours sincere best wishes for a really enjoyable Christmas with Health, Happiness and Prosperity and all good things throughout the coming year.

A. V. MADGE, R.I.A., F.C.I.S.,
President.

THESES AVAILABLE FOR REFERENCE

One of the most valuable sources of detailed information on Cost Accounting method as applied to specific industries is provided by theses submitted by candidates for Registered Membership in S.I.C.A. It is with much pride and a profound sense of satisfaction, that we publish in this issue of *Cost and Management* (page 396) the list of theses now available to members for reference purposes. Although this list will be incorporated in the next supplement to the library's Topical Index, it was felt that the value of the theses merited the publication of a separate list.

Since the inception of the Educational Programme only twelve years ago, the Society has received more than 200 theses. This reservoir of technical information is rapidly increasing, and it is estimated that in the coming year alone, some seventy theses will be submitted.

For those who may not be familiar with the thesis requirements, the following quotation is taken from the student regulations of the Ontario Society and is also applicable in the other Provinces:

"This thesis shall be a comprehensive description of a Cost Accounting System applied to a specific business enterprise. The system described may be one actually in operation or may be one developed on a hypothetical basis applicable to an actual enterprise.

An introductory description of the Company, its organization, its products and its manufacturing operations is recommended.

A reasonably complete description of the cost accounting plan and procedure should be given, including the accounting control, specimens of the principal forms used, reports and statements, and some reference to budgetary control. If the concern is a large one, a description of the overall cost system may be given or one department may be selected and described in detail.

A thesis on a subject relating to Industrial Organization and Management may be accepted if the subject is approved by the Educational Committee."

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Michael R. Shamata, Ronson Art Metal Works (Canada) Ltd.
Alexander Shaw, Colgate-Palmolive-Peet Co.
Alex Shepherd, Unemployment Insurance Commission
Leslie W. Stagg, Canadian General Electric Co. Ltd.
Maxfield Sufrin, Unemployment Insurance Commission
Michael Sulyma, Cherrio Toys & Games
Gordon B. Taylor, Vigeon & Co.
C. Harris Tod, Thorne, Mulholland, Howson & McPherson
August Tuhk, Rexel Products of Canada
James W. Vair, Thorne, Mulholland, Howson & McPherson
Piet Van Dijken, John McNair & Son, Port Credit, Ont.
George C. Williams, Foundation Co. of Canada Ltd.
G. Donald Wilson, Trinidad Leaseholds (Canada) Ltd., Port Credit, Ont.
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Profit and Loss Statements
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Chapter Notes

FORT WILLIAM - PORT ARTHUR CHAPTER

A regular meeting of the Chapter was held on October 22nd, in the Palomar Supper Club, with Walter T. Willson, supervisor of the Port Arthur office of the Unemployment Insurance Commission, as guest speaker.

Mr. Willson outlined functions performed by the U.I.C. since its inception in 1941. As the commission was founded in a period of industrial activity, and as intervening years had been of high employment and steady industrial expansion, the reserve accumulating in the fund has risen to a high figure, he asserted. But this reserve was necessary to meet any wide-scale unemployment met during a recession.

The speaker illustrated how the U.I.C. was a factor in stabilizing the national economic picture. In one period of six months the Port Arthur office had paid out in claims $675,000, which had assisted not only the recipients, but also the community.

Mr. Willson stated that the services provided by the U.I.C. and National Selective Service offices were given without charge to any employer or employee seeking them.

Howard Britten was presented with an engraved silver medal awarded to the student obtaining the second highest mark in Advanced Cost Accounting in the provincial examinations. Jim Coghlan, immediate past chairman, made the presentation.

* * * * *

An informal luncheon was held October 28th, at the Port Arthur Golf & Country Club, by the executive and past chairmen of the Fort William-Port Arthur Chapter, to pay tribute to a fellow member, D. R. Harrison, who is leaving to reside in Victoria.

C. W. King, chapter chairman, referred to Mr. Harrison's contributions to his church, fraternal, service club and civic affiliations in various capacities, and presented him a framed oil painting of the Sleeping Giant, "Nannabijou", in Indian legend, as a token of appreciation from the Chapter for his work as a member, past chairman and past president of the Society of Industrial and Cost Accountants of Canada.

MONTREAL AND E. T. CHAPTERS

The Montreal and Eastern Townships Chapters of the Society of Industrial and Cost Accountants held a joint meeting in Granby, Thursday evening, October 23rd, 1952. There were approximately eighty members and guests present, including the national president, Mr. A. V. Madge, and the provincial president, Mr. Langlois.

The guest speaker for the evening, Mr. H. Boivin, mayor of Granby, was introduced by Mr. T. Masterson, of Sherbrooke. Mr. Boivin's topic was: "Getting Ready for To-morrow". Mr. Boivin pointed out how necessary it was to plan for to-morrow if you wanted to achieve advancement to-day. He also spoke on his European trip and found that Canadian Goods were classified as the best in the world, due to high quality of materials and workmanship.

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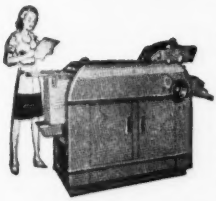

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PERSONALS

W. L. Child, C.A., R.I.A., has returned to public practice with Piers, Evans & Company, Chartered Accountants, in Halifax, Nova Scotia. Mr. Child was formerly Treasurer of the Nova Scotia Light & Power Company Limited.

Elgon K. Faulds, R.I.A., has been appointed Vice-President and Treasurer of H. C. Smith Oil Tool Co., Compton, California. Mr. Faulds was formerly Assistant Treasurer of the Company.

D. M. Powers, R.I.A., has been promoted to Assistant Treasurer of Provincial Engineering Ltd., in Niagara Falls, Ontario.

Theses Available for Reference

A

AGRICULTURAL IMPLEMENTS, A PROCESS COST ACCOUNTING SYSTEM FOR,
R. V. McLaughlin, R.I.A. ..... No. 32

AIRPLANES (MODEL), COST CONTROL IN SMALL INDUSTRY,
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TUBE & CAP COMPANY LTD., COST ACCOUNTING FOR THE AJAX,
C. W. Kindree ..... No. 20

V

VALVES AND FITTINGS, MANUFACTURING PROCESS AND ORGANIZATION ROUTINE
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C & M ROUND-UP

By N. R. BARFOOT, R.I.A.

STEEL FACTS

Steel is certainly one of the basic industries of any modern economy and a country's growth and expansion may be judged by its steel growth and expansion. Canada is no exception. Here are a few relevant figures.

	1939	1952
Ingot Capacity	2.25 Million Tons	4.7 Million Tons
Per Capita	380 Lbs.	795 Lbs.

Present and immediate future expansion plans call for 152 millions to be spent on steel expansion.

Ancillary operations include a steel tube mill with an annual capacity of 250,000 tons and an installation for tool and specialty steels which has expended nearly 21 million in the last few years.

HEALTH

Eight of the ten provinces have now completed their surveys of health services.

British Columbia, Alberta and Saskatchewan are strongly in favour of some national health plan. Nova Scotia and Prince Edward Island are satisfied for the time being to let voluntary plans carry on.

New Brunswick seems to oppose an immediate start. Ontario and Quebec have not commented.

The surveys were conducted by appointed committees through a Federal grant set apart for a review of existing health services.

The committees have examined all fields of health services and made inventories of all services available.

As soon as all reports are in, Ottawa should be able to review the whole situation from the standpoint of Federal participation and also be in a position to time the introduction of such a service.

PENSION PLANS

A recent survey concerning Industrial Pension Plans shows that plans set up after January 21, 1949, have the following characteristics.

Pension Plans are more usual in larger firms since these firms are better unionized; have greater financial resources and have a larger proportion of employees at or near retirement age.

Ninety-two percent of the plans studied were put into effect as a result of collective bargaining. Prior to 1949 only thirteen percent of the plans were the result of union pressure.

Twice as many plans have been financed in total by companies since 1949.

Most of the plans were found in the manufacturing field. The greatest concentration of pension plans is in the chemical and primary metal field. The lowest proportion is among the textile firms.

RETAIL BOOM

A record total of retail sales will finish out this year of 1952.

Approximately 11 billions of business will have passed over retail counters during '52. This is 5% up on last year.

The reasons are:—

Labour income exceeded the 900 million mark during July and has been greater in succeeding months. The year's estimate is 10.5 billions. Last year's total was 9.64 billions.

Department store sales were up 51% in October, as compared to this month of last year.

Credit sales are up 11% from 1951 and has been accelerating since the lifting of restrictions.

Savings deposits stood at 4.87 billions in mid-summer as compared to 4.58 billions last year. Not a sufficient increase to have any depressive effect on consumer buying.

Consumer prices are fairly steady so that buyer resistance is low.

The heavy consumer items which have been slow in moving are going out at a good pace.

Retail inventories are well down and larger buying commitments are the pattern.

ONTARIO AND THE NATIONAL ECONOMY

There has been so much excitement and advertising — (and well founded) about the oil, mineral and other recently developed natural resources in Canada that it might be well to look at developments in this old and historic province.

The following table will give a quick picture in broad totals of Ontario's contribution to the national effort.

	Billions	% of National Total
Personal Income	5.33	39.7
Retail Sales	4.03	38.6
Farm Income	.79	28.
Manufacturing	8.63	49.1
Construction	1.02	44.3
Mining	.44	35.6
Power (Million KWH)	16,903	29.5
Population	4,597,542	32.8 of Canadian Total

Manufacturing is, of course, a large factor in Ontario, who in one form or another, uses the natural resources found in the other provinces.

The gross value of manufacturing in Canada for 1952 will exceed 17.5 billions. Ontario alone contributes 8.6 billions of this total. The 1939 figure was 1.75 billion.

New investment in Ontario this year alone amounted to over 500 millions. A few examples are:

Oil Refining	50 millions
Carbon Black (a domestic first)	2 millions
Nylon	36 millions

Last year a total of 92 new industries were established in Ontario, but major industrial expansions numbered 451, with capital investment totalling 370 millions.

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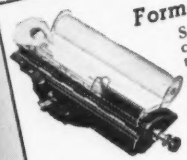

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Selling Accounting to Management

By M. B. T. DAVIES, C.A. (Eng.), C.P.A.
Manager of Accounting, Deep Rock Oil Corp.

In this paper the author outlines the principal functions of accounting, and in dealing with each one, he offers his views on how to convince management of the important contribution of that function to the ultimate success of the business. Not the least important is the problem of communication and some very practical suggestions are offered.

Introduction

It is interesting to observe in what different lights the management of various businesses accept accounting. In some cases it is regarded as a necessary evil — a function performed mainly to comply with the law and satisfy the tax authorities. In other cases it is recognized as a reporting service, giving the management periodic reports as to how business is progressing — and little more. In the most favorable cases, however, it is acknowledged as a vital executive tool; a means for reporting *and* appraising the results of each phase of the operations; an instrument to assist in planning future operations; a service which provides a picture of any operating or financial phase of the business that the executive management may need from time to time.

Why is it that some managements are unwilling to accept accounting service at its full value, whereas others demand of it a maximum and enlightened service? The answer probably lies in the ability of the principal accounting officer rather than in the management. If he can "make the figures talk" and make them talk intelligently and acceptably, he will find a ready welcome for his services. If he is content merely to serve up historical facts, many of which are already apparent to the management without the use of the accounts themselves, he will cause his efforts to degenerate into a second-rate clerical service.

Let us consider, then, how accounting can provide management with the best possible service and convince it of its true function as a necessary handmaiden to the business operations themselves, contributing in a real measure to the ultimate success of the business.

The Principal Functions of Accounting

Accounting serves three different purposes:—

(a) It provides a record of all business transactions;
(b) It furnishes operating controls;
(c) It communicates to directors and executives the progress of the business.

The Recording Function

The first requirement of accounting is that of recording. Records are the raw material for every service that it provides. They must first of all be accurate. Inaccurate records present the simplest means of destroying the confidence of management. To build up accurate records calls for intelligent planning; it needs the determination and execution of such procedures as will insure that *all* information is passed methodically through organized channels into logical repositories. To do this requires that the accountant and his staff maintain at all times the most harmonious relations with every department and unit of the business. Every unit deals with something that develops into a transaction, even though it be only a payroll check. And every transaction must find its way into the records.

The next essential in recording is the orderly arrangement of accounting information. Like the engineer, the accountant must devise his blueprints before he sets to work. The principal blueprint is the chart of accounts, and this should be so designed as to provide readily, and without re-analyzing the records, all information wanted for managerial planning, information and control; income tax; SEC; costing comparisons; budgetary analysis.

The sister to the chart of accounts is the accounting manual. This gives the accountant's subordinates a basis for classifying their information intelligently and consistently and provides a useful training medium for new staff. If a clerk is absent his substitute can classify income or expense in an abnormal manner unless he has a written guide to assist him.

A further supplement to the chart of accounts is a set of current accounting procedures. The chart of accounts specifies *where* the information is placed, the manual indicates *what* goes where, and the procedures show *how* it gets there. The larger the organization, the more essential it is that these three aids be utilized. Without them the accountant is "playing by ear" and will soon be "flying by the seat of his pants".

A further essential in recording is the proper organization and management of accounting personnel. Duties have to be clearly defined and interrelated. Responsibilities have to be grouped according to logical units of people. Authorities have to be delegated to the lowest level capable of exercising them, supplemented, in every case, with such controls and reporting arrangements as will provide evidence that the authorities are being efficiently exercised. The persons concerned must be kept fully informed of all transactions and must be encouraged to maintain free communication with the operating units whose affairs directly affect their work.

Records lead to reports. Such reports may be of minor importance, such as the provision of detailed balances to support a control balance. Or they may be of the utmost significance, such as comparisons between actual and budgeted operating results and explanations of the differences. For every report, from the most menial to the most significant, there must be established a personal responsibility and a deadline. This should be incorporated in a master schedule and circulated to all members of the accounting staff concerned. Specified individuals should be charged with the responsibility of insuring adherence to the schedule and taking immediate action to remedy any deviations. Let this schedule fall down and the information will fail to reach the right place at the appointed time. It will become a history rather than a tool of management. It might involve the company in monetary loss (such as fines or penalty interest for late governmental submissions) or in the disorganization of management routine (as could the absence of operating statistics at a board meeting).

In all but the smaller organizations, the principal accounting officer himself should be as free as possible from routine. If his machine is properly under control his subordinates will perform their recording tasks in good order and furnish the accounting reports without his participation. His principal duties should be confined to the following:

(a) Ascertaining the real accounting needs of management and providing means for fulfilling them;

(b) Discussing with management significant matters revealed by the accounting reports and any related problems;

(c) Reviewing the efficiency of his own organization;

(d) Assisting his subordinates in the solution of problems which they are unable to handle without his help.

The Control Function

The old concept of control is the assurance that the company's assets cannot be misappropriated without the records showing the fact immediately. To adhere to this concept alone is not only outmoded and dangerous but is also a sure way of destroying confidence in the accounting function. Control in its modern sense implies assurance that management policy is properly executed. If the principal sales executive decides that X quantity of product Y should be sold in area Z every month, then it is far more vital that he be informed immediately that this is not being achieved than it is for any senior official to be told that there is a shortage of a hundred dollars' worth of stores during the last quarter.

This brings out an important factor. The principal accounting officer must at all times be informed of management policy. Minutes of management policy decisions should be routed to him promptly for information and action. He should be brought into the picture when changes are planned so that he can make timely changes in his own accounting plans to provide the necessary control service. The accounting service can only provide the necessary controls if it constantly receives this basic information.

The accountant should endeavour to throw a maximum degree of emphasis on the operating statements rather than the balance sheet. The balance sheet is a static and historical document. It shows how the business stood a week or a month ago. It is often distorted by "window-dressing", resulting from exceptional transactions entered into near the balance sheet date. The operating statements, on the other hand, are dynamic documents — moving pictures rather than a still photograph. They show how, over a period of time, the business earned its income and how it spent it. They are the statements which measure the success of the entire operation, and provide an admirable method of appraising results, whether against past performance or expected achievement. By careful analysis the accountant can really make the main operating statement and its supplements tell an illuminating story. He can explain why results are better or worse in each section of the business. He can tell that, although sales are higher, they have dropped in

certain products or in certain areas, thus opening the way for action to strengthen the sales force, meet competition or introduce a specialized advertising program. He can tell that expenses in a certain unit are higher than normal, thus permitting a timely appraisal to be made and remedial action to be taken if found necessary. In producing his operating statement the accountant should relate it to either or both of the budget and past performance. He should investigate and report any material deviations so that the executive management is quickly provided with facts on which to base decisions. It is probably more in this particular field that the accountant can earn the confidence and respect of the management than in any other.

We must consider, in relation to operating results, the question of costs. Basic products and services require to be costed accurately to furnish a guide to their profitability. Variations in costs and deviations from standards require prompt study in exactly the same way as do the financial statements. Let us suppose that the company manufactures a range of products, of which any one or more can readily be produced in greater or smaller quantities. The determination that a particular product has become less expensive to produce can easily lead to a decision to manufacture it in larger quantities and enhance the over-all profits. Intelligent analysis of costs and participation in discussing findings and conclusions can permit the accountant to show his company ways to earn more money.

The function of control is, therefore, threefold. In the first place, it provides an intelligent survey of operating and financial results such as will satisfy management that its policies are being followed; secondly, it provides a basis to assist management to frame its future policies to the greater benefit of the company; thirdly, it furnishes a silent, behind-the-scenes check that the company's assets are being properly safeguarded and that its funds are being properly disbursed. All functions are important, but the first two provide a swifter way to gain management acceptance of the accounting service.

The Communication Function

Some accountants prepare their records and keep them to themselves. Others pass them on to management and management shows a decided lack of interest. The remainder pass them on to management and it receives them with interest. Acceptance depends upon the ability of the accountant to communicate.

The accountant is like a newspaper reporter. He gathers together his facts and then tells the story. The management is his reader. The management is busy and has plenty to do with its time other than to read accounting reports. How, then, should the accountant compel their recognition? Two words of advice may be offered in this respect:

(a) Fit the report to suit the reader. (Don't, for example, burden the principal sales executive with details of production costs unless he asks for them, and don't burden the principal manufacturing executive with details of sales statistics moulded to assist the sales organization.)

(b) Be as brief as possible. Convey your story with the minimum number of facts and figures and the maximum amount of "punch". If more facts are required they will be available, but don't overburden busy executives with detailed statistics or explanations unless they are vital to the formulation of future policy.

In presenting reports the accountant should, like the newspaper reporter, tell his facts in brief first and then enlarge on them in subsidiary statements. "Sixty people died in a terrible fire at an Oshkosh theatre yesterday," says the newspaperman. Then he goes on to tell the details, to explain the cause, describe the harrowing scenes and name the victims. The reader sees his report. He grasps from the first sentence what has happened. Often this satisfies his thirst for information. But, if he is familiar with Oshkosh, interested in methods of fire prevention or merely of a morbid frame of mind, he will read further.

Following the newspaper technique, the accountant can present his reports in the same manner, first a letter of transmittal telling the basic facts, then the accounting statement itself, suitably condensed, and finally the supporting schedules, the last provided only to such readers as need them. For example, in his transmittal letter, the accountant may point out that he is submitting a statement of manufacturing costs for September 1951, that they exceed budget by $28,000, caused principally by three explained factors. Then follows the statement, showing a condensed summary. After that comes schedules of departmental operating results. The last will normally be of little interest to the president, of some interest to the manufacturing vice-president and of particular significance to

the subordinate manufacturing executives. Therefore he doesn't give the supporting schedules to the president unless asked for. He ascertains the vice-president's wishes in advance, and he automatically forwards them to the junior manufacturing executives.

When transmitting information the accountant should endeavour to make it an attractive package. It is sound policy to define in writing how accounting statements should be typewritten, covering such matters as the use of capital letters, standard punctuation, underlining, dollar signs, margins and the numbering of paragraphs of written matter. The strictest of routines should be applied for proof-reading and final checks of arithmetic. Clerical mistakes, to say the least, are embarrassing to the accountant.

Explanatory matter should be brief and have "punch", thrusting the points requiring emphasis well before the reader's eyes, just as the journalist uses headlines. Captioned paragraphs are a useful means of doing this. The style should be precise, definite and unequivocal. Such expressions as "sundry", "miscellaneous" and "etcetera", the hiding places of undisclosed information, should be avoided wherever practicable. The language should be so phrased and worded as to convey the message in the reader's lingo and not in accounting jargon. Pages should not be overcrowded with masses of figures; they frequently cause mental indigestion at sight.

An accounting report is frequently made a more living document, too, if accompanied by visual aids, such as charts, graphs, maps or even photographs. The use of charts and graphs is already an accepted business technique. Photographs, too, can assist the accountant immeasurably in telling his story. For example, in pointing out situations that require improvement, a picture can convey the facts much more readily than a quantity of written matter, in addition to presenting the situation more authoritatively. The addition of important new fixed assets, too, can well be covered by a photograph, which means so much more than a brief description followed by a row of figures.

One must remember that accounting is not an exact science. It is composed of many broad estimates, such as depreciation and provisions for bad debts. In addition to this, the normal human being can much more readily understand small figures than large ones. For these two reasons, the amounts submitted

in accounting statements can, with much advantage, be presented to the first two or three significant figures. Fixed assets, for example, can be easier understood if presented to the nearest million dollars rather than down to the last dollar — or even cent, as is frequently found. Profit figures, except in the smallest of businesses, show a false impression of accuracy if portrayed in anything other than round thousands or, in some cases, even tens or hundreds of thousands.

The accountant should consult with the operating executive before presenting his report. Since every accounting report presents a situation that differs in some respects from expectations, the reader will want to know why. How much better it is for the accountant to tell him the reasons rather than letting him find out for himself. And these reasons should not be mere accounting ones, they should present the operating story. Let us say, for example, that manufacturing expense for a given month has exceeded the budget by $20,000. These facts should be conveyed to management along the following lines.

"Manufacturing expense exceeded the budget of $380,000 by $20,000.

The following main factors account for this.

$7,000 was caused by emergency repairs on machine 177. It broke down July 17 and was put into action again by July 29.

$4,000 resulted from the payment of professional fees to XYZ & Co., industrial engineers, for a time and motion study.

$9,000 was entailed by an increase in the unit charge for electricity, retroactive to June 15.".

The accountant should arm himself with sufficient background information to be able to discuss with the executive concerned any additional particulars or explanations he may require in connection with a given report. A common and time-proved expedient to assist in this respect is to maintain a file of working papers in support of each accounting submission.

Where suitable, accounts and reports should be bound, though this practice is frequently overdone. Binding should normally be resorted to when the contents are likely to be referred to often or they are of a permanent or semi-permanent nature.

In some instances the accountant may be known only by his reports and accounting statements. They are his shop-

window. He must make them as utilitarian, attractice and readable as possible.

Other Aids in Selling Accounting

The principal accounting officer of any organization serves it in a dual capacity. His primary function is that of an accountant. His secondary — but equally important — role is that of a member of the management group. In this latter capacity he must make himself familiar with all of the policies and problems of the business so that his advice will be sought and received confidently as a member of the select band of men who guide the company's fortunes.

There are other fields where the accountant can offer yeoman service to his organization, although not entirely related to the basic accounting service.

Perhaps the most important area is that of tax management. With the present high rates of taxes and the increasing complexity of the tax regulations, many businesses are now forced to consider the tax aspects of any major transaction or course of business before embarking on it. Such matters as timing, corporate structure and detailed wording of contracts may be immensely important in determining the company's tax liability. Tax management and planning is therefore essential in the conduct of any active business organization. The accountant would be foolhardy, however, if he were to offer such advice single-handed. It is a service that he must perform in close conjunction with the company's legal counsel.

Another field where the accountant's services can be of value to management is in formulating the company budget. This budget is like the navigator's chart. It shows where the company wants to go and how. The course will never be followed exactly that way or reach exactly that point, but deviations must be constantly spotted and, where necessary, corrected. The budget is built largely on past experience, as shown by the accounts, so that the accountant's service is essential, first in helping to create the budgetary structure and content, and then in comparing actual results against budget.

The accountant's service is often sought in a more specialized field, that of insurance. It includes not only the coverage of risks but also the management of pension plans and similar means whereby employees' benefits are conveyed through the medium of insurance. An additional and particularly intricate

phase of insurance work is determining the relationship between book values and required coverage.

The principal accounting officer is often called upon to participate in the company's payroll administration and control, an area which is becoming increasingly complex with the present extent and nature of government regulations and controls. Here again, tax considerations are often of material interest.

The principal accounting officer in many cases supervises his company's economic research unit. This unit studies economic trends relating to all aspects of the industry in which the company is engaged, including not only the industry itself but those which form its principal sources of supply and demand. Trends are studied and the economist is often in a position to advise management on such features as the following:

(a) The company's performance in relation to its competitors;
(b) New sources of supply and demand;
(c) Favorable areas to extend its operations;
(d) When and where to increase or reduce its purchasing;
(e) Where and in what field to change its sales campaign;
(f) Financial trends relative to the company's operations;

and many other allied problems.

In these and other phases of the business the accountant can offer services which increase the recognition of his own organization by his company as a whole and by the executive management in particular.

Conclusion

The relationship between the executive management and the accounting organization may be likened to that of husband and wife. The former has the main job of bringing in the money. It produces the ideas and plans on which the business income depends. The accounting organization, as the distaff side of business management, looks after the housekeeping and offers sympathy and advice to the breadwinner, thus enabling him to go about his duties all the more capably.

The accountant has much to sell to management, and the process of selling needs careful planning and organization, much hard work and loads of down-to-earth salesmanship.

The Value of an Operating Point of View to Industrial Accountants

By R. R. RENNER

INDUSTRIAL MANAGEMENT CONSULTANT

Stressing the service function of accounting in relation to other departments in the business, the author cites examples of the contribution which can be made in cost reduction and expense control when the industrial accountant has a realistic view from the standpoint of production and sales.

A few weeks ago, a young accountant with an industrial manufacturing concern told me he felt that the opportunities for progress in accounting seemed less within reach than in the past since accounting had become so complex that one had to concentrate in one or only a few particular phases and, thus, easily got "buried" or "pigeon holed". He also voiced the time-honored complaint that accountants are generally under-rated and regarded as dispensable figure-chasers in any organization. I hastened to tell him there was nothing further from the truth. That conversation prompted this article which by no means makes any attempt to be comprehensive or complete. It only attempts to make one or two suggestions to provoke thinking rather than to present a point-by-point "how-to-do-it" technique.

The accountant, particularly where his major function is in the area of cost control, has a responsibility the importance of which is not often pointed up, nor fully appreciated, and goes by default. This may well be due not only to a failure of the accountant himself, but also a tendency to stay in the traditional atmosphere usually surrounding him — that of accounts, their design, development, maintenance, analysis, interpretation and reporting. Perhaps this is because the accountant may fail to think of himself, and fail to act, as what may be termed "an operating man" with an "operating" point of view.

Understanding the Operating Point of View

The "operating" point of view can add a great deal to the accountant's value and prestige in any organization, particularly a manufacturing one. I am sure there are innumerable accountants who have discovered that non-accountants among operating men are not only desirous but highly eager for accounting help,

providing that it takes cognizance of the operating point of view. An "operating" point of view cannot be merely a superficial or artificial veneer; it must be a genuine one born of real understanding and shirt-sleeve, dirty-hands experience in and about the shop departments. Not the figures resulting from what takes place in the shop, but the happenings in the shop which give rise to the need for accounting figures, are important in developing an "operating" point of view.

In these days of government controls, semi-military industrial busyness and attendant increasing preoccupations with "paper work", accountants will find it easy to let themselves get submerged in accounting details, and find less time for the maintenance of shop and operating contact. Thereby they can lose much.

A recent issue of a well known business management magazine[1] carried an article written by a Plant Manager and an engineer by training. The article had relation to the broad subject of cost control and included the description of a system, forms and procedures, developed and used by the author. It was impressive because not only did it describe an effective working tool the author used day by day, but more so because so much of it involved the use of industrial accounting mechanisms and techniques. Moreover, it presumably stemmed from an operating man's need, and was an operating man's solution for that need. Whether or not he had the help of an accountant was not indicated in the article.

The purpose of this reference is to point up one of undoubtedly many similar cases which offer opportunities for the industrial accountant to serve and gain increased regard in the eyes of what I term "operating people".

The Industrial Engineering Point of View

The realm of time standards and incentive rates, although usually within the jurisdiction of the industrial and methods engineering functions in an organization, is one very close to that of industrial cost accounting because the two are closely interrelated when it comes to the prime objective of greater production output and efficiency at lower unit costs of the product. In this area, the industrial accountant has a responsibility of working with the industrial engineer. Additionally, there is the responsibility of keeping the attention of everyone else, operating

1 Factory Management & Maintenance, Vol. 109, No. 11, pp. 115-122, November 1951 issue.

plant management as well as administrative general management, to the importance of higher labor costs due to loose time standards and "creeping" standards. It is not uncommon for time standards, when they are initially set, to be loose as a result of any one or more factors too numerous to list and explain here. It is, likewise, not uncommon for standards to gradually become loose or to "creep" as a result of improvements in methods, techniques, materials, tools, equipment, etc. and revisions in the standards are not made, or not made promptly enough, to bring them into accordance with the changed or new physical factors involved.

Obviously, the industrial accountant, in such cases, is in no position to revise the standards. This is the function of the industrial engineer, but the industrial accountant does have the responsibility of working in close harmony with the engineer so that he may keep himself aware of the problems confronting the latter. The accountant should make test studies from time to time for symptoms which may indicate looseness. This is not as difficult or complex as it may first sound. Over and above these, the accountant can, with the "operating point of view" keep himself aware, informed and observant of production conditions by frequent and regular contact, visits and exposure in operating departments. The benefits, the effects, the results and the value of this personal contact cannot be over-stressed.

An interesting illustration is the case of the accountant who, in one of his departmental visits, stopped to watch a particular operation when the foreman of the department commented that the operator was the fastest of the group and that although this operator was the one assigned to train all new ones, none seemed to ever attain her proficiency and speed. The accountant stopped to watch a few of the others. He then asked why the operation was being done with the left hand rather than the right hand and remarked that it seemed to be an awkward and slow way of doing it. The offhand reply was that it didn't make any difference anyway since the best operator (previously referred to) did it left-handedly. The accountant then asked her why she did and received the surprising reply from her that she was naturally left-handed. As was to be expected, corrective changes were put into effect. Here was a case where some degree of higher unit cost was being incurred until an accountant happened to observe and ask a question. Unless the accountant had employed the tech-

nique of "personal contact", he would never have had the chance to ask the question which brought about a change in the training methods for the particular operation in the case.

Here is also illustrated the idea of an "operating point of view". Unless the accountant had subconsciously analyzed the motions, he would not have realized that one motion was an unnatural one in relation to the others. Unless the accountant had accustomed himself to observing production operations, what the worker was doing would have had little to no significance to him.

Incidentally, in this case cited, the accountant and the foreman carried their discussion to quite some length including the matter of production aids (tooling) involved.

While on the topic of time standards, it seems proper to suggest that the accountant would do well to acquaint himself as to quality control techniques and the statistical theories related to them. It goes without saying that mathematics is one of the academic areas in which the accountant should not be completely at sea. As is by now fairly well known, statistical quality control is a useful tool of management for many production objectives, and has among its various beneficial results that of reduction in costs. Now what relation may the mathematics of statistical quality control have to time study standards?

Taking time studies involves a great deal of time and detail. A time study engineer, if asked how many "cycles" he may time when gathering studies of an operation, will probably give a figure anywhere from 10 to 20. The question then becomes whether 10 to 20 timings will develop an adequate basis for setting a time standard. (It has already been mentioned that loose standards are one source of high product costs). The mathematician will answer that they could be, provided the particular studies produce and represent a satisfactory sample. But how can this be decided? A suggestion by an engineer in a recently published article[2] raises the idea of applying the law of probabilities to the situation. A probability table might be developed, based on particular conditions that prevail, which could indicate whether the "standard" from the studies may or may not be representative or a fair sample of the true conditions.

[2] Mechanical Engineering, Vol. 73, No. 11, pp. 906-909, November 1951 issue.

In statistical quality control mathematics and formulae, the workings of the law of probability are not ignored. Since the techniques of statistical quality control utilize sampling methods, there is a similarity in the field of application — a series of time studies is only a sample of the operations studied, and therefore, a sampling method in itself. One conclusion should be obvious. If the time study "samples" are good samples, then the time standards set from them should be good standards, provided, of course, that the time studies are competently taken. Good standards not only make for efficient costs, but also make for good labor relations in the long run. The real objective of good standards is not "tight" performance ideals so much as "fair" ones. (This is my personal philosophy and others may not agree). Needless to say, good labor relations in the long run do keep costs down.

The Plant Management Point of View

Throughout a manufacturing organization there are many, many spots where continuing vigilance on the part of everyone, the accountant, the foreman, the engineer, the plant manager, the general manager, will result in efficiency and economy in product costs. There are probably as many if not more opportunities for the accountant to utilize his operating point of view on indirect or non-production activities as there are on direct ones such as have been illustrated in the preceding paragraphs. To illustrate this is the following case example.

On a "shop exposure" trip in the plant an accountant stopped to watch the activities in the shipping department. He noticed first that packing cases of wood were being used in what seemed to be rather heavy material, and next that the cases were being built up from pre-cut shooks. The entire series of operations from start to finish, including the final packing and stencilling of the case left a strong impression of cost saving possibilities. Later he made another visit to "recheck" his impression, and study a little deeper the various operations.

He then urged the production executive in charge to thoroughly investigate the possibilities of cartons rather than wood cases. There was strong inertia and self-satisfaction with the existing method and materials to be overcome. Several times the project would have been dropped when samples of cartons did not meet the requirements, except for the accountant's insistence *and suggestions* on additional types and sources

of cartons for trial. Not only was there shipping department reluctance to be overcome, there also was sales department traditionalism to be unsold: fears of dire consequence from customer complaints were predicted.

To make short this citation, after some four months effort a special carton was finally designed and developed by a carton manufacturer *at no cost to the company* which met all requirements. The results were: pleased accomplishment on the part of the production people involved, a surprising number of congratulatory reactions from customers instead of complaints, and a remarkable degree of reduced costs for packing and shipping materials, labor, handling and freight. The real reward of the accountant came when the production executive who was originally resistant to the change expressed his appreciation to the accountant for the latter's persistence and suggestions.

This example again illustrates what I have tried to point out: that without an operating point of view the underlying significance of the various operations involved would have probably created no questions in the mind of the accountant. But this enables me to bring up another suggestion on how the accountant can strengthen himself individually toward greater effectiveness, and I use the term "tough-mindedness". I believe an accountant should cultivate a tough-mindedness: this means disinclination to readily accept mentally unchallenged the surface facts shown or told him and to develop a persevering, tenacious philosophy. Without this faculty, the accountant can become frustrated and soon lose respect in the eyes of others. The more the accountant knows about shop operations and activities, and the more he develops an operating point of view the better he can have tough-mindedness. And now a word of caution. There is a great difference between tough-mindedness and toughness. The first is a spirit of mind, the latter is a behaviour. Toughness can quickly create resentments and antagonisms and prevent the very thing which is to be striven for: respect and co-operation.

Sales Point of View

An operating point of view is not necessarily limited to the "shop"; it is also of value in relation to sales. Take the case of the accountant whose responsibilities included credits and collections. A customer whose account the sales department valued considerably, went slow to such an extent that the accountant

became quite concerned when the sales department pressed for credit acceptance of considerable additional business as well as extension of time for payment. A conference between the customer and the accountant took place. The accountant inquired into, and discussed with the customer at great length the latter's products, plant, operating methods, and production planning procedures. On the strength of the information gained in the conference, the accountant then was in a position to intelligently establish various operational facts which he asked the field salesman to confirm on the basis of the salesman's own knowledge of the customer's plant. This having been done, the accountant worked out an arrangement with the customer. The reward came in the form of the customer's meeting all obligations a little ahead of the arranged plan, the sales department did not lose any of the business, and the customer's good will was retained. Here was a case where the accountant's know-how and operating point of view enabled him to form a sound decision based on facts other than the financial information which in itself would not have justified further credit extension.

Opportunities for the accountant to earn real respect from sales executives are not confined to sales analysis, sales expense control, and other sales accounting services. Many times there are opportunities in connection with suggesting changes which might lead the way to price concessions to customers. A sales manager is quite pleasantly surprised when an accountant says: "Jim, I think I can suggest a way for a lower price for that XYZ Company you have been troubled with." This brings to mind the case of the customer who ordered several kinds of items from a manufacturer of custom-built products, but placed his orders at random times. The accountant knew from his shop exposure that a good many of the parts of these various items were either common or so closely similar that many operations were the same. He suggested an ordering plan whereby combined lots of the parts calling for common operations could be processed and unit costs for such parts brought down through savings in set-up time. The sales manager invited the accountant to participate in a conference with the customer who adopted the proposal. Results: production cost savings part of which were passed on to the customer as price reductions, lessened set-ups for the production foremen to worry about (it may be said there that set-up time and frequent changes in set-ups of equipment are strongly disliked by foremen), pleased customer,

pleased sales manager, as well as other benefits. Here once more is an operating point of view working.

Conclusions

These few illustrations have been drawn from actual experience. There have been dozens of other similar ones. Undoubtedly among the thousands of accountants in business to-day, there are time and again the same kind of evidences of the value of an operating point of view. In the final analysis, the industrial accountant is in a service function which has the ultimate objective in common with all others in the organization of making the company operate at a profit. Profits come in part through keeping costs down. The more the accountant has an operating point of view the more he is able to validate his function of service.

The accounting function as a whole, and this is again a personal belief, is staff in nature — to accumulate facts, to analyze them, to form opinions and conclusions from them, then interpret them and make recommendations from them. The facts, their interpretations and the accountant's recommendations may not be accepted by the people for whom they have been prepared, nor used even if they have been accepted. That is the responsibility of those who *are* in organizational command positions. (For the sake of clarification, it must be added that the accountant may be in a command position by specific delegation or authority assigned him, in which instances he fills a double role). This, then, presents the challenge for the accountant to so conduct himself that he attains the highest regard, stature and respect of all others in the organization as not just an expert accountant, but as a management staff executive with a realistic and practical shopman's operating point of view. Having earned that respect, his interpretations and recommendations can then bear the true fruit. In any industrial concern the exposures are there and from them stem the opportunities. All the accountant need do is to start exposing them — the rest can easily follow.

« STUDENT SECTION »

Comments by J. D. CAMPBELL, C.A., R.I.A.

ACCOUNTING I, 1952 EXAMINATION

QUESTION VI (24 marks)

On February 1st, 1951, R. Coomb and H. Bell formed a partnership, Coomb and Bell, in order to open a sport store. The agreement provided that monthly salaries of $300 and $400 be allowed to Coomb and Bell, respectively. Interest at 5% per annum on the original investment was to be allowed. Profits and losses, after salaries and interest, are shared equally, subject to partners' salaries and interest on capital.

The trial balance at the end of the first year of business was as follows:—

(Capital accounts represent the original investment)

R. Coomb and H. Bell

TRIAL BALANCE

January 31st, 1952

Account	Dr.	Cr.
Accounts receivable	$ 50,000.00	
Coomb — Capital		$ 40,000.00
Bell — Capital		60,000.00
Coomb — Drawing	4,000.00	
Bell — Drawing	5,000.00	
Prepaid insurance	200.00	
Furniture and fixtures	10,000.00	
Reserve for depreciation of furniture and fixtures		2,000.00
Sales		300,000.00
Purchases	275,000.00	
Sales discount	2,000.00	
Purchase discount		3,000.00
Bank overdraft		4,000.00
Accounts payable		10,000.00
General expenses	20,000.00	
Salaries (not partners)	40,000.00	
Freight in	1,000.00	
Notes receivable	26,800.00	
Land	5,000.00	
Building	10,000.00	
Reserve for depreciation of buildings		3,000.00
Reserve for bad debts		7,000.00
Sales returns	6,000.00	
Purchase returns		6,000.00
Notes payable		18,000.00

Accrued liabilities		3,000.00
Delivery expense	1,000.00	
	$456,000.00	$456,000.00

Closing inventory $40,000.00.

Required:

(1) Operating Statements and Schedules of Partners' Drawing or Current Accounts for the year ended January 31st, 1952.

(2) Balance Sheet as at January 31st, 1952.

SOLUTION TO QUESTION VI (24 marks)

R. COOMB - H. BELL
Schedules of Drawing Accounts
for the year ended January 31st, 1952

SCHEDULE A

		R. Coomb		H. Bell
Balance as per Trial Balance		$4,000.00		$5,000.00
Salary	$3,600.00		$4,800.00	
Interest on Capital	2,000.00	5,600.00	3,000.00	7,800.00
		$1,600.00		$2,800.00
Share of Loss (See Schedule B below)		$4,700.00		$4,700.00
Balance		Dr. $3,100.00		Dr. $1,900.00

SCHEDULE B

Salary — Coomb	$3,600.00	
Salary — Bell	4,800.00	$8,400.00
Interest on Capital — Coomb	$2,000.00	
Interest on Capital — Bell	3,000.00	5,000.00
		13,400.00
Net Profit		4,000.00
Net Loss to be shared equally		$9,400.00

If schedule of accounts are in different order, they should be accepted.

R. COOMB - H. BELL
Statement of Trading
for the year ended January 31st, 1952

Sales		$300,000.00	
Less Sales returns		6,000.00	$294,000.00
Cost of Goods Sold:			
Merchandise, Jan. 31, 1951		15,000.00	
Purchases	$260,000.00		
Less Purchase Returns	6,000.00	254,000.00	

Freight in	1,000.00	
	$270,000.00	
Less Merchandise, Jan. 31, 1952	40,000.00	230,000.00
Gross Profit		$ 64,000.00

Note: Trading and P. & L. Statement may be combined.

R. COOMB - H. BELL

Statement of Profit and Loss

for the year ended January 31st, 1952

Gross Profit			$ 64,000.00
Selling Expenses:			
Delivery expenses	$ 1,000.00		
Salaries — Staff	40,000.00	$ 41,000.00	
General Administrative Expenses:			
General expenses		20,000.00	
Financial Expenses:			
Sales discount		2,000.00	
		$ 63,000.00	
Less Financial Income:			
Purchase discount		3,000.00	60,000.00
Net Profit			$ 4,000.00

R. COOMB - H. BELL

Balance Sheet

January 31st, 1952

ASSETS

Current:			
Notes receivable	$ 26,800.00		
Accounts receivable	50,000.00	$ 76,800.00	
Less: Reserve for bad debts	7,000.00	$ 69,800.00	
Merchandise inventory		40,000.00	$109,800.00
Prepaid Expenses:			
Prepaid insurance			$ 200.00
Fixed:			
Land		$ 5,000.00	
Building	$ 10,000.00		

Less Reserve for deprecation ..	3,000.00	7,000.00	
Furniture and fixtures	10,000.00		
Less Reserve for depreciation	2,000.00	8,000.00	20,000.00
			$130,000.00

LIABILITIES

Current:			
Bank overdraft		$ 4,000.00	
Notes payable		18,000.00	
Accounts payable		10,000.00	
Accrued interest payable		3,000.00	$ 35,000.00

CAPITAL

Capital — R. Coomb	$ 40,000.00		
Capital — H. Bell	60,000.00	$100,000.00	
Less Drawing — R. Coomb	3,100.00		
Less Drawing — H. Bell	1,900.00	5,000.00	95,000.00
			$130,000.00

COMMENTS:

The primary difficulty encountered in presenting the solutions to this particular question by a large number of the students arose in the application of the terms of the partnership agreement as to the distribution of the profits between the two partners. As is to be seen from Schedule A of the solution, the profit of $4,000 is divided under the terms of the partnership agreement, $900 to Coomb and $3,100 to Bell.

The majority of the students were able to determine the figure of the net profit of $4.000, although a number included in the determination of the profit the provision of the partnership agreement covering the items of partners' salaries and interest on capital with the result that a net loss of $9,400 was presented under the statement of the profit and loss for the year. Where this information was presented in the form of a distribution of profits, no penalty was imposed, but where these various items of salaries and interest were treated as administrative and financial expenses, a penalty was imposed.

In the solutions presented, the usual type of errors arose involving calculations, classifications, and failure to balance.

The treatment of sales and purchase discounts other than as financial expenses and income, as set out in the above solution, was not considered incorrect and no penalty was imposed.

STUDENT SECTION

ACCOUNTING II, 1952 EXAMINATION

QUESTION VI (8 marks)

John Brown, sole proprietor, has been taking care of the books for his business. At the end of 1951 and before the accounts are closed for the year, you are engaged as office manager. You are asked to review the books and records and to make any required corrections. During the course of your investigation the data below were discovered:—

(a) Accrued commissions payable to employees at the end of 1949 and 1950 of $300 and $550 respectively had been overlooked. (Brown reports income on the accrual basis.)

(b) The installation charge for fixtures $500 was charged to expenses. The fixtures, having a 5-year life, were installed at the beginning of 1950.

(c) Merchandise of $4,000 was received on December 31st, 1950, and this shipment was included in the physical inventory taken on that date. However, the entry in the purchases record was made only when the invoice was received on January 7th, 1951.

(d) A machine acquired January 1st, 1950, at a cost of $5,000 was scrapped on April 1st, 1951. Brown has taken depreciation at the rate of 20 per cent (Straight-Line) for the year 1950. Brown debited cash and credited machinery for $50, the proceeds from salvage on the machine.

SOLUTION TO QUESTION VI (8 marks)

General Journal

(a)	Dr. John Brown Capital	$ 550.00	
	Cr. Commission expense		$ 550.00
	To record adjustment re accrued commissions 31st December, 1950, paid in 1951 and charged to commission expense.		
	No entry required re $300 error.		
(b)	Dr. Fixtures	$ 500.00	
	Cr. Reserve for depreciation		$ 100.00
	John Brown Capital		400.00
	Installation Invoice No. 36 charged to expenses 1950 and should have been capitalized.		
	Dr. Depreciation of fixtures	$ 100.00	
	Cr. Reserve for depreciation		$ 100.00
	Depreciation for current year on fixtures 20% of $500.		
(c)	Dr. John Brown Capital	$4,000.00	
	Cr. Purchases		$4,000.00
	Invoice No. 6 charged to Purchases 1951 which should have been charged to Purchases 1950.		
(d)	Dr. Depreciation of machine	$ 250.00	
	Cr. Reserve for depreciation machine		$ 250.00
	To provide for depreciation on machine		

scrapped 1st April, 1951, 3 months at 20% on $5,000.

Dr. Reserve for depreciation	$1,250.00	
Loss on scrapped machine	3,700.00	
Cr. Machine		$4,950.00

To record scrapping of Machine No. 10.

COMMENTS:

Here, as in Question V, one of the major problems appeared to be the clear separation in the mind of the student of the items as to their effect between periods.

This question was not well answered and the answers given indicated a failure on the part of the student to fully appreciate what the entries which he was presenting were designed to accomplish.